

Testimony of

Logan Magruder

On behalf of

The Independent Petroleum Association of Mountain States,

Domestic Petroleum Council,

Independent Petroleum Association of America,

United States Oil and Gas Association,

American Petroleum Institute,

International Association of Drilling Contractors,

and

Natural Gas Supply Association,

Before the

Senate Appropriations Subcommittee

on

The Department of the Interior, Environment and Related Agencies

October 25, 2005

Mr. Chairman and members of the subcommittee, my name is Logan Magruder and I am the President of the Independent Petroleum Association of Mountain States (IPAMS). Today, I am testifying on behalf of IPAMS as well as the following cooperating trade associations: the Domestic Petroleum Council, Independent Petroleum Association of America, US Oil and Gas Association, American Petroleum Institute, International Association of Drilling Contractors and the Natural Gas Supply Association. We want to thank this subcommittee for holding a hearing about the resource needs of the BLM in the upcoming year. The decisions made by this subcommittee can have very real impacts on natural gas consumers across the nation.

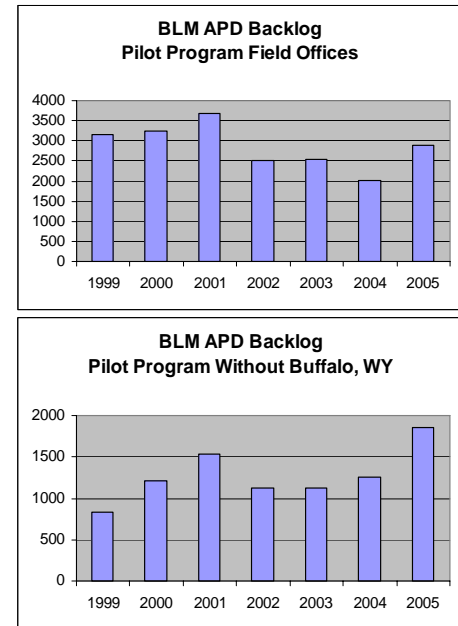
The main points I would like to make today are that:

- **Adequately funding the government's energy development programs (Bureau of Land Management (BLM), Forest Service (FS) and Bureau of Indian Affairs (BIA) and improving the regulatory processes can increase the development of federally owned energy resources for the benefit of consumers.**
- **An analysis done for the Domestic Petroleum Council -- and we believe a similar analysis done for the Department of the Interior that may be released later this week -- demonstrates that adequate funding and resources to process backlogged pending Applications for Permits to Drill (APDs) (estimated to be greater than 3000), can lead to as much as 105 – Billion Cubic Feet of additional natural gas supply in the first year alone – with higher additional production increases in subsequent years. That's enough natural gas to supply one and a quarter million additional households in that first year alone.**
- **The revenues generated by additional oil and gas development will more than offset the government's investment needed to ensure that public land energy development receives proper compliance and environmental attention, both before and after a permit – plus return significant additional dollars to the Treasury.**

In fiscal year 2004, oil and gas development on BLM and FS lands generated \$1,648,896,000 in royalty revenues. This translates into almost \$19.00 of revenue for every dollar spent to manage the program (Source: BLM). Ensuring adequate funding for approval and oversight of energy projects through appropriations will help encourage further development to meet the nation's growing energy demand. Under the existing regulatory structure, the backlog of permits (both applications for permits to drill (APDs) and rights of way) and the current price environment underscore the need for a

comprehensive oil and gas program with the proper resources. The backlog of permits in field offices across the Intermountain West represents, most importantly, natural gas and oil supplies that could be helping consumers by making energy more affordable.

As of September 17, 2005 there were more than 3700 permits pending at BLM in the Intermountain West. Ninety-eight percent (98%) of BLM's pending permits are in the Intermountain West. Each permit represents an opportunity to increase natural gas supplies heading toward consumers. Approximately seventy percent (70%) of all permits waiting for approval have been pending for more than 35 days even though they're considered complete by the agency. In some cases, the FS process can take longer. While the process - including unnecessary and duplicative pre drilling studies and unnecessary permit restrictions - are the main causes of the backlog, the resource agencies are stretched too thin and need more people with proper training and that means adequately funding the agency.



The importance of adequate funding. The charts above show the backlog of APDs in the BLM field offices that are part of the pilot program created by the Energy Policy Act. While it illustrates overall progress on the backlog, it doesn't tell the entire story. The Buffalo field office received focused appropriations in the past and has successfully addressed part of its backlog. However, isolating the backlog at other field offices reveals the mounting backlog needing attention.

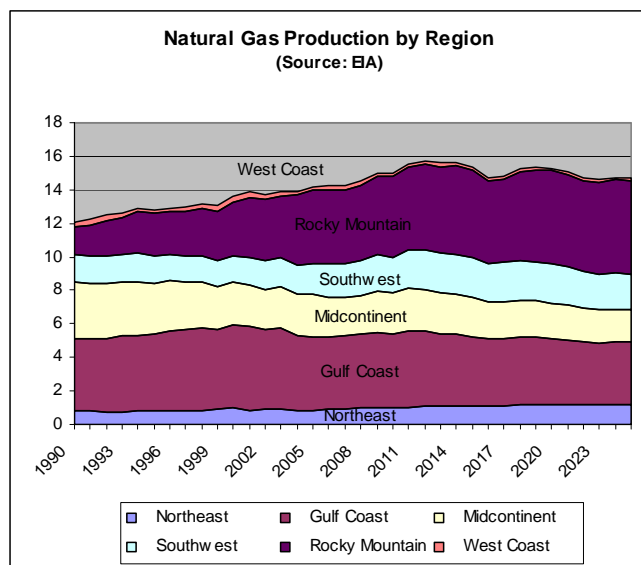
Federal natural gas resources play a significant role in supplying natural gas to the public. In 2004, the Intermountain West provided 22% of the Nation's natural gas.¹ The Energy Information Administration predicts natural gas production in the Intermountain West will increase 26% by 2025.² With nearly 201 trillion cubic feet of natural gas beneath onshore federal lands this is the only region capable of providing significant near-term production increases.³ Achieving this goal requires a comprehensive effort by the Federal Agencies to promote natural gas development backed by adequate

¹ Source: America's Energy for America's Future, The Department of the Interior

² Source: Energy Information Administration

³ Source: America's Energy for America's Future, The Department of the Interior

funding to ensure these resources are developed in compliance with the laws. Eliminating delays within the regulatory system won't reduce environmental protections, but it will help deliver more natural gas to the 62 million households that rely on natural gas. Doesn't it make sense that natural gas resources owned by the American public should be developed to benefit the American public?



Looking to the Future. The Rocky Mountains are projected to be one of the top areas contributing to our nation's natural gas supply. More than half of the production from this region currently comes from public lands. In the future, production from public lands will become more critical for our nation's natural gas supply. Proper funding for BLM to eliminate the backlog and improve the process will ensure that public lands can continue supplying their share of domestic production.

Because the government also plays such a critical role in our nation's energy development – through its ownership and control over development - it's important to ensure that the programs impacting consumer's energy prices are adequately funded. Hurricanes Katrina and Rita clearly illustrated the importance this nation places on the government for its energy. These hurricanes also show the nation how supply disruptions create real impacts for consumers. Indeed, because of the price environment we're experiencing now, funding these programs is especially critical so these supplies –

owned by Americans, produced by Americans and consumed by Americans – can be developed for the consumer's benefit.

In order to help consumers, the Federal Government must increase production from public lands. Today's natural gas market is tightly balanced with supply struggling to keep pace with demand. In such volatile markets, it is particularly important for all market participants to be attuned to, and able to react to, market signals. Increasing supplies from public lands requires a thorough examination of public land energy development to improve the existing regulatory processes allowing the government and industry to adapt to changes in the market for natural gas. It takes time to react to changes and operators in every basin in the Intermountain West are ready to commit the necessary resources to

increase production. However, Congress must do its part through funding the agencies responsible for developing federal resources to address the corresponding increase in permit applications.

In places like the San Juan Basin of New Mexico and Colorado, a robust drilling program is needed to maintain production levels. Each day this basin produces approximately 4 billion cubic feet of natural gas to meet consumer energy needs in California to the west and to a number of markets to the east. The drilling program needed in the Basin means dealing with tight supply of drilling rigs, trained people and pipeline infrastructure issues. Industry is willing and able to do so, but such action depends on acceleration of APD approvals.

The Energy Policy Act of 2005 contains positive policy changes that provide an opportunity for the Bureau of Land Management to improve its permitting practices. This opportunity was backed up by a direct funding source to ensure that America's natural gas resources are developed for the benefit of the nation. Ensuring these dollars reach their intended source should be a primary consideration of this subcommittee in order to forestall anticipated offsets in the upcoming budget.

The Energy Pilot Program created in the Energy Policy Act of 2005 will yield benefits to consumers if BLM takes this opportunity to comprehensively review the process for approving permits. To estimate resource needs in the future for this program, BLM should examine the current production coming from federal lands then determine how much natural gas needs to come from public lands in order to supply the demands of the nation. After the agencies understand their role, then they can begin planning for that level of natural gas production in terms of process and manpower needed to reach this goal. The result should be a program ready to fulfill the permitting obligations of the agency.

In the Uintah Basin of northeast Utah, the Vernal Field Office is now the second busiest field office in terms of permit volume. The field office manager in that office does a fantastic job within the system and manpower available. However, good management can only take us so far. Industry had to temporarily fund 5 hosted workers to help eliminate the backlog in that office. Recognizing the value of these workers, the Field Office Manager eventually found the resources to continue paying for these

workers under its budget. But 5 workers still falls short of the staff needed to process permits and perform the necessary on-site inspections throughout the area.

While emphasis is placed on applications for permits to drill (APDs), there also exists a large delay in receiving other approvals for natural gas development. Delays in processing rights of way to transport natural gas from the lease to the market pipeline leaves natural gas stranded. In some offices, natural gas producers are waiting to drill approved APDs because the associated right of way has not been approved.

In addition, BLM needs adequate resources to monitor the development taking place to ensure operators are complying with conditions of approval and lease stipulations – and to monitor and adjust these as justified. An improved process would free up manpower for these functions which are arguably more important than the procedural requirements. However, increasing resources and improving the process will yield more benefits to consumers.

In closing, let me remind this committee that high natural gas prices are not the result of a cartel refusing to produce more natural gas. They are the direct result of a continuous neglect of the regulatory process that governs oil and natural gas development on federal lands and of restrictions on access to key energy resources. The Intermountain West offers a near-term solution and is also part of a longer-term solution for the supply-side of the equation. However, in order to develop these supplies in a sustainable manner, Congress must provide adequate resources to the federal agencies to reach a defined goal – supplying the public demand with natural gas. The Federal Government, as owner of the largest reserves of natural gas, has the responsibility to ensure that adequate supplies of this domestic resource - owned by Americans, produced by Americans, and consumed by Americans – is developed for the benefit of the public. Thank you for the opportunity to testify and I look forward to answering any questions you have.

Recommendations

Increased Funding to Improve the Process – Funding for oil and natural gas programs (both BLM and FS) should be increased across the board. This allows the agency to use the momentum from the Energy Policy Act of 2005 to improve the permitting process. Top down reviews of the process will provide the information needed for the agency to improve the overall development process that has become too cumbersome.

Prevent Offsets – With the Administration's budget due out soon, this subcommittee should look for offsets of new funding sources from the Energy Policy Act of 2005. Offsets will set the program back by preventing BLM from eliminating the backlog of permits.

Eliminate the Backlog of Rights of Ways – Drilling the well is the first step, getting the product to the consumer is the next step. Funding should help address eliminating the mounting backlog for rights of way.

Provide Resources for Follow Up Surface Compliance – BLM needs the resources to ensure that operators are complying with their lease terms and conditions of approval.

Encourage Concurrent Reviews of Exploration and Development Proposals – E&P proposals are frequently reviewed in a consecutive fashion where the paper moves from one desk to the next. The process is cumbersome and inefficient. Where possible proposals should be distributed to the proper personnel for *concurrent* reviews.

Delay Impact on Federal Royalty Value

Project Description

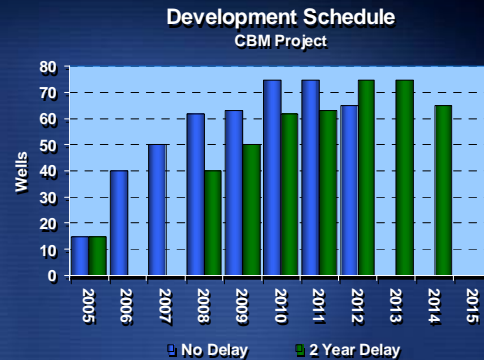
- Coalbed Methane Project located in Carbon County, Wyoming
- Total project area is 155,000 acres
- Federal acreage comprises 64.3% within planned development area

Assumptions

- Evaluation Date: April 1, 2005
- Gas Price: \$5.00/MMbtu flat
- Developed wells: 445
- Based on actual CBNG project in South Central Wyoming

Results of Delay

- **\$11 MM reduction in Net Present Value for Federal Royalty**
- **Gas available for sales is reduced by an average of 11.3 Bcf per year for the time period 2005-2015**
- **Enough Natural Gas to supply 138,000 households per year**
- **An additional ID team of 5 people could significantly reduce or eliminate these delays**



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As you see here, in one project area of Wyoming alone, increased permitting could lead to an increase in average annual natural gas production of more than 11-Billion Cubic Feet, or enough to supply 138-thousand households. That also means an additional \$11-million in federal royalty receipts.

Permitting Timeline for APD Approval: BLM Vernal Field Office, BIA, and State of Utah

